

STATE OF CONNECTICUT

**AUDITORS' REPORT
WORKERS' COMPENSATION COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 and 2003**

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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September 7, 2004

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2002 and 2003**

We have made an examination of the financial records of the Workers' Compensation Commission for the fiscal years ended June 30, 2002 and 2003. Financial statement presentation and auditing are done on a Statewide Single Audit basis to include all State agencies, including the Workers' Compensation Commission. This examination has been limited to assessing the Workers' Compensation Commission's compliance with certain provisions of financial related laws, regulations, contracts, and grants, and evaluating the Commission's internal control policies and procedures established to ensure such compliance. This report on our examination consists of the Comments, Recommendations and Certification which follow.

COMMENTS

FOREWORD:

The Workers' Compensation Commission operates, generally, under the provisions contained in Title 31, Chapter 568, of the General Statutes. The Commission is responsible for administering the workers' compensation laws of the State of Connecticut with the ultimate goal of ensuring that workers injured on the job receive prompt payment of lost work time benefits and attendant medical expenses.

Workers' Compensation Commissioners:

Section 31-276 of the General Statutes establishes a Workers' Compensation Commission. The Commission consists of 16 Workers' Compensation Commissioners including one who serves as chairman. Commissioners are nominated by the Governor and appointed by the General Assembly for five-year terms. The Governor selects one of the 16 commissioners to serve as chairman of the Commission at the Governor's pleasure. The chairman shall have previously served as a Workers' Compensation Commissioner in Connecticut for at least one year.

The Workers' Compensation Commissioners, as of June 30, 2003, were as follows:

Howard Belkin
Stephen B. Delaney
Donald H. Doyle, Jr.
Jesse M. Frankl
Ralph E. Marcarelli
John A. Mastropietro, Chairman
James J. Metro
Michael S. Miles
Leonard S. Paoletta
Charles F. Senich
Michelle D. Truglia
Amado J. Vargas
George A. Waldron
Ernie R. Walker
A. Thomas White, Jr.
[Vacant]

John A. Mastropietro was appointed as Chairman effective October 18, 1999, and continues to serve in that position.

In addition to the above, Nancy A. Brouillet, Robin W. Waller, and Robin L. Wilson also served as Commissioners for part of the audited period. The one vacancy as of June 30, 2003, was filled during the 2003-2004 fiscal year with the appointment of Nancy E. Salerno.

Organization Structure:

The Chairman of the Commission has responsibility for administering the workers' compensation system. The Chairman is responsible for adopting policies, rules and procedures deemed to be necessary to carry out the workers' compensation law. An Advisory Board, established under the provisions of Section 31-280a, advises the Chairman on matters concerning policy for, and the operation of, the Commission. The Commission had 116 full-time employees, one part-time employee, and one temporary employee as of June 30, 2003.

District Offices:

The Chairman designates workers' compensation districts throughout the State and assigns compensation commissioners to districts according to claim volume. Commissioners are responsible for holding hearings, mediating and arbitrating disputes and enforcing agreements and awards. Administrative functions of the districts are performed by professional staff assigned to those districts. There are eight districts in addition to the Chairman's office.

Compensation Review Board:

The Compensation Review Board within the Commission is authorized by Section 31-280b of the General Statutes. The Review Board is responsible for reviewing appeals of decisions made by compensation commissioners pursuant to Chapter 568 of the General Statutes. The

Review Board is made up of the Chairman of the Commission, who serves as chief of the Review Board, and two compensation commissioners selected by the Chairman to serve a term of one-year.

Rehabilitation Services:

The Workers' Rehabilitation Services program is authorized by Section 31-283a of the General Statutes. The Workers' Rehabilitation Unit provides rehabilitation programs for employees suffering compensable injuries which disabled them from performing their customary or most recent work.

Statistical Division:

The Statistical Division within the Commission is authorized by Section 31-283f of the General Statutes. The Division is responsible for compiling and maintaining statistics concerning occupational injuries and diseases, voluntary agreements, status of claims and commissioners' dockets.

Education / Health and Safety Service:

Section 31-283g of the General Statutes authorizes the Commission to provide educational services to employees concerning the prevention of occupational diseases and injuries, training for other than management employees in workers' compensation procedures and substantive rights, information to employees concerning known and suspected workplace hazards, and training and information for medical professionals in workers' compensation procedures, standards and requirements.

Section 31-40v of the General Statutes requires employers having 25 or more employees in the State and employers whose rate of work related injury or illness exceed the average incident rate of all industries in the State to administer a safety and health committee in accordance with regulations adopted by the Chairman of the Commission.

Fraud Unit:

A Workers' Compensation Fraud Unit within the Chief State's Attorney's Office in the Division of Criminal Justice is authorized by Section 31-290d of the General Statutes. The Unit, under the supervision of the Chief State's Attorney may, upon receipt of a complaint, at the request of the Chairman of the Commission or on its own initiative, investigate cases of alleged fraud involving any claim for benefits, any receipt or payment of benefits, or the insurance or self-insurance of liability under Sections 31-275 to 31-355a of the General Statutes. Upon conclusion of the investigation, the Chief State's Attorney shall take appropriate action to enforce the laws of the State. The cost of the Workers' Compensation Fraud Unit is appropriated by the General Assembly as an expense of the Commission and is paid from the Workers' Compensation Administration Fund.

RÉSUMÉ OF OPERATIONS:

Funding and Assessments:

As authorized under the Workers' Compensation Act of the General Statutes, the administrative expenses of the Commission are financed by annual assessments against companies writing workers' compensation insurance and against self-insured employers. Under the provisions of Section 31-345 of the General Statutes, the State Treasurer is required to assess and collect from insurance carriers and self-insurers amounts to reimburse the State for annual expenses incurred by the Commission in administering the Workers' Compensation Act. Such assessments and expenses cannot exceed budget estimates of all direct and indirect costs of the Commission for the succeeding fiscal year commencing on July 1 next as determined by the Chairman of the Commission in accordance with subsection (c) of Section 31-280 of the General Statutes. For each fiscal year, such assessment shall be reduced pro rata by the amount of any surplus from the assessments of prior fiscal years. The surplus is defined by this act as the amount in the Workers' Compensation Administration Fund that exceeds 50 percent of the Commission's expenditures for the most recently completed fiscal year. All assessments collected by the State Treasurer are required to be deposited in the Workers' Compensation Administration Fund.

Special Revenue and General Fund Receipts:

General Fund receipts consisted of grants that totaled \$197,565 and \$97,081 for the fiscal years ended June 30, 2002 and 2003, respectively.

Workers' Compensation Administration Fund receipts totaled \$20,350,612 and \$21,410,936 for the fiscal years ended June 30, 2002 and 2003, respectively, and included assessments of \$20,308,536 and \$21,383,555, respectively, collected by the State Treasurer. As noted earlier in this report, assessments and collections are the responsibilities of the State Treasurer and, as such, are subject to examination and comment as part of our audit of the State Treasurer. Receipts collected by the Commission and credited to the Workers' Compensation Administration Fund amounted to \$42,076 and \$27,381 for the fiscal years ended June 30, 2002, and 2003, respectively. Receipts were primarily in the categories of photostating and copying fees and refunds of expenditures.

The Workers' Compensation Administration Fund's fund balance, which reflects the accumulated annual excess of assessments over expenditures, totaled \$13,167,038 and \$14,927,077 as of June 30, 2002 and 2003, respectively.

Special Revenue and General Fund Expenditures:

A summary of expenditures during the audited period is presented below:

	<u>2001-2002</u>	<u>2002-2003</u>
Personal services	\$ 8,874,012	8,806,367
Contractual services	3,036,404	2,637,449
Commodities	164,284	155,395
Sundry Charges:		
Training Costs, Non-Employee	3,741,992	3,379,317
Employee Fringe Benefit Costs	3,380,971	3,145,247
Other Sundry Charges	1,239,951	942,928
Equipment and Leasehold Improvements	124,724	303,094
Other	1,917	0
Total Expenditures	<u>\$20,564,255</u>	<u>\$19,369,797</u>

Expenditures charged to the Workers' Compensation Administration Fund amounted to \$20,369,160 and \$19,272,716 during the fiscal years ended June 30, 2002 and 2003, respectively. General Fund expenditures during the same period totaled \$195,095 and \$97,081. Total expenditures increased by \$335,383 during fiscal year 2001-2002 and decreased by \$1,194,458 during fiscal year 2002-2003. The increase in fiscal year 2001-2002 expenditures was mainly the result of increases in personal services, fringe benefits and electronic data processing, offset by a decrease in tuition costs of the Workers' Rehabilitation Services program. Additional grant funds received and spent in the 2001-2002 fiscal year also contributed to the increase. Decreases in the 2002-2003 fiscal year were mainly the result of reductions in contractual services expenditures and decreases in tuition costs of the Workers' Rehabilitation Services program. Also, a decrease in the number of employees that was caused by employee layoffs and employees taking an Early Retirement Incentive Program offered during the fiscal year contributed to the decreased expenditures. Continued decreases in expenditures, as a direct result of the staff reductions, should be expected for the 2003-2004 fiscal year.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform evaluations of selected Agency operations. These performance reviews are conducted in order to determine effectiveness and efficiency in achieving expressed legislative purposes. Our review involved the operations of the Workers' Compensation Commission's Workers' Rehabilitation Unit.

Section 31-283a indicates that the Workers' Compensation Commission shall provide rehabilitation programs for employees suffering compensable injuries that disabled them from performing their customary or most recent work. The programs are required to be made available in convenient locations throughout the State. To meet those mandates, the Workers' Compensation Commission has set up a Workers' Rehabilitation Unit. The Unit's main goal is to return injured workers to the workforce. As of June 30, 2002, the Unit was comprised of 14 full-time employees and a rehired retiree. Full-time staff consisted of a Supervisor, an Administrative Assistant and 12 Rehabilitation Coordinators. During the 2002-2003 fiscal year the Workers' Compensation Commission lost nine of its full-time staff and the retiree to layoffs. These

employees' positions were eliminated, apparently with the intention of not replacing them. The remaining five employees were subsequently lost to early retirements, leaving the Unit with no employees as of June 30, 2003. Five of the laid-off employees were reemployed in the Unit during the 2003-2004 fiscal year, filling the positions of those who retired. As of the completion of our field work the Unit had five employees and no vacant positions.

The Workers' Rehabilitation Unit was selected for review to determine how the Workers' Compensation Commission met its statutory requirements during the audited period, how it is currently meeting those requirements with the limited resources it is operating with, and how the changes in staffing has affected the Unit's performance. Our procedures included interviews with staff, reviewing client files and various reports furnished by the Commission. To meet its statutory mandate, the Rehabilitation Unit has staff assigned to its District Offices located throughout the State as well as to its Central Office. The Commission also has set up arrangements with institutions throughout the State in an effort to accommodate clients in all areas of the State. The process of getting clients into the rehabilitation program generally begins with a referral or voluntary rehabilitation request. Clients are required to submit applications for participation in the program. The applications are entered into the Commission's computer system and subsequently assigned to rehabilitation coordinators. The individual becomes a client once the application is entered into the system. An interview is set up with a coordinator in the District Office nearest the client's home. Once the client has been determined eligible and it is determined that participation in the vocational rehabilitation program is beneficial, the process of developing a rehabilitation plan is underway. For various reasons, there are instances in which clients are terminated from the program before a plan is established. The Unit uses aptitude testing and other tools for determining an appropriate subject of study or new line of work for the client. Through testing and meetings with the client, a rehabilitation plan is established. The goal of each plan is to return the client to the workforce in the fastest most economical way possible. Rehabilitation coordinators monitor each client's progress in the program by reviewing reports from various institutions, discussing matters with the clients, and developing supplemental plans as required. Rehabilitation coordinators enter information on the Commission's computer system for each client at various stages of the clients' progress through the program. Statistical information is maintained on the computer system and reports are generated from it as determined necessary, and always for the annual report. The Commission does not monitor statistical information and therefore does not produce reports on a regular basis concerning the number of clients in the program, new clients, terminated clients, etc. The Rehabilitation Unit does monitor coordinator caseloads and client terminations informally. It would appear that a formal reporting system would benefit the Commission by providing it with information about the participant activity in the program on a timely basis, as opposed to once per year for the annual report. Further, our review disclosed inconsistencies in information presented in certain of the reports we obtained from the Worker's Rehabilitation computer system. We suggest that the Commission consider implementing a consistent, timely internal reporting procedure that would ensure that information captured by the computer system is accurate. Certain relevant statistical information obtained and reported on an ongoing basis should provide for more detailed and accurate information about the program's activities and effectiveness.

Because of layoffs and retirements that occurred in the 2003 fiscal year, the Unit had no employees as of June 1, 2003. Although no changes were made to its statutory mandate, we were told that the Commission was unsure as to whether the rehabilitation program would ever be used again. As previously indicated, the Commission subsequently refilled five of the positions,

with the first in August 2003 and the last in October 2003. During the period from June 2003 through August 2003, the Commission was only processing payments for clients with previously approved rehabilitation plans. There was no monitoring of clients' progress, and new clients were not being accepted. Applications were being taken, but none were entered into the computer system. We were told that the rehired employees spent a significant amount of time processing some 600-700 applications that were received during that time, and have since been working to get eligible applicants into rehabilitation programs. Also, they were updating information on the computer system for clients terminated from the program when there was no staff available to do it. The decreased staffing levels also resulted in the rehabilitation counselors having decreased contact with clients, and effectively less time to monitor clients' progress. For example, routine calls to discuss such progress that were normally made by coordinators on a periodic basis have been reduced significantly. Instead, the coordinators are relying on clients to contact them to review such matters. The same is true for new applicants. Rather than the applicants relying on a coordinator to review applications and contact them, they are asked to contact the rehabilitation coordinator and inquire on their status. According to the Commission, prior to the staffing cuts, new applicants were seen within three to four weeks upon the receipt of an application, and now it can take from six to nine weeks to do that. Also, with four coordinators and a supervisor, and eight district offices, each is required to cover more than one office. Accordingly, additional travel is required and less attention must be given to each district office.

The effects of the staff changes on the performance of the Unit will be most apparent in the 2003-2004 fiscal year statistics, and the years following. With the limited staff, fewer rehabilitation plans will be written, and accordingly, the Unit will not be able to return as many injured workers to the workforce as it has in previous years. Certain statistics that were obtained from reports that were prepared at our request from the Commission's Workers' Rehabilitation computer system for the 2002 and 2003 fiscal years, and the 2004 fiscal year through March 2004, follow.

The number of applications the Workers' Rehabilitation Unit processed decreased from 1,694 to 1,442 for the fiscal years ended June 30, 2002 and 2003, respectively, to 742 during the 2004 fiscal year, through March 2004. Payments made by the Workers' Compensation Commission on behalf of clients in workers' rehabilitation programs, as well as the number of clients with payments made on their behalf, also decreased considerably, as presented in the table below. These payments reflect the costs associated with retraining clients, and do not include personal services costs or overhead costs of the Commission that are associated with operating the program.

Category	Fiscal Years Ended		
	6/30/2002	6/30/2003	*6/30/2004
Payments on behalf of clients	\$3,741,992	\$3,379,317	\$989,508
Number of clients	929	844	302

*Through March 2004

The significant decline in the services that the Unit was able to provide was a direct result of the loss of staff. However, the effects of the staffing losses appears most obvious in the number of clients who had payments made on their behalf for the first time during the 2003 and 2004 fiscal years. An analysis of payments processed for clients disclosed that first time payments in

the 2004 fiscal year, through March 2004, were made for 74 clients, compared to 515 in the 2003 fiscal year. It is clear that in the long run, without increased staffing, the Unit will produce fewer rehabilitation plans for clients and, accordingly, return significantly fewer injured workers to the workforce. We reviewed Commission reports on the number of clients the Unit assisted in returning to work. As indicated previously, the Unit does not enter into a rehabilitation plan with every applicant. However, the Unit does attempt to track the employment status of every applicant who terminates from the program. The best measure of the Unit's success is in the number of injured workers it is able to return to the workforce, in particular those that participated in a vocational rehabilitation plan with the Unit. The information following summarizes the applicant's employment status after terminating from the program. The information was obtained from reports generated by the Unit.

	Fiscal Years Ended			
	<u>6/30/2002</u>	<u>6/30/2003</u>	<u>*6/30/2004</u>	<u>Total</u>
Number of Clients Terminated:				
Who Had a Rehabilitation Plan	399	393	245	1,037
Who Did Not Have a Rehabilitation Plan	<u>1,233</u>	<u>1,308</u>	<u>518</u>	<u>3,059</u>
Total Terminations	<u>1,632</u>	<u>1,701</u>	<u>763</u>	<u>4,096</u>

*Through March 2004

Of the 1,037 terminated clients who had a rehabilitation plan, the Unit's records show that 809, or 78 percent of them, returned to work. In addition, the Unit's records present that another 890 terminated clients, who did not enter into a plan with the Unit, returned to work. The Unit was able to maintain a high success rate for clients with plans, despite a significant increase in the coordinators' caseloads. During April 2004, the approximate caseload was 430-450 clients per coordinator, as opposed to 130-150 clients prior to the staffing cuts. While returning to work is largely dependent upon the individual's goals or ambitions, the rehabilitation coordinator's participation with the individual is also an important factor. Consistent with the coordinator's increased caseloads, a decline in the success rate in future years would probably not be unusual.

In conclusion, our review disclosed that the Workers' Compensation Commission is providing rehabilitation services as required under Section 31-283a of the General Statutes. However, because of circumstances outside of the Commission's control, it is providing services to significantly fewer people than in the past. It is evident from our review that for the Workers' Rehabilitation Unit to operate most effectively, a supervisor and a minimum of one coordinator assigned to each district office would be required. The Commission should make every effort it can to obtain additional positions so that it can operate its Workers' Rehabilitation Program as effectively as possible.

CONDITION OF RECORDS

Our examination revealed certain areas requiring further attention, as discussed below.

Payroll and Personnel:

Criteria: Timesheets should be signed by each employee and a supervisor to evidence the hours of work and leave time used for each pay period.

For each pay period a timesheet is printed off the computer for each employee. The employee is supposed to fill in the hours worked and the hours of leave time used for each day within the pay period. The employee's supervisor is then supposed to sign the timesheet and submit it for payroll processing.

Condition: In our review of 40 timesheets, we noted three occasions in which supervisors approved the time sheets prior to the conclusion of the pay period. We also noted ten occasions in which time sheets had changes made to them that were not initialed by the employee and/or the supervisor. In one instance, a supervisor signed an employee's name because the employee was out on leave. In none of these cases did we note any documented acknowledgement that the employees reviewed and agreed with the changes made.

Effect: It is possible that time worked and leave time used may be recorded incorrectly, which could result in an error in a payment or an improper charge of leave time.

Cause: The Agency's policy is that a timesheet must be submitted to the central office at the end of a pay period. If any changes are made to an employee's timesheet the employee does not always acknowledge them.

Recommendation: The Commission should establish procedures to ensure that all timesheets submitted for processing are properly completed by the employee and approved by supervisors. The procedures should include a requirement that the employee agree or disagree with any changes made to the applicable timesheet. (See Recommendation 1.)

Agency's Response: "The agency has policies in place requiring employees and supervisors to initial any changes made to timesheets. Personnel staff will be more diligent in enforcing these procedures in the future. Supervisors will be informed that timesheets may no longer be signed in advance of the last day of the pay period. Any timesheets with either employee or supervisor signatures that are dated prior to the last day of the pay period will be returned for corrections."

Equipment Inventory:

Our review of equipment inventory revealed the following:

- Criteria:* Section 4-36 of the Connecticut General Statutes requires State agencies to maintain inventory accounts prescribed by the Comptroller and report annually to the Comptroller the Agency's inventory balances.
- Condition:* The Agency did not include all new equipment purchases as additions on its June 30, 2002 and June 30, 2003, reports to the Comptroller. During the fiscal year ended June 30, 2003, the Agency purchased a single mode port adapter and a Remote Access Server costing \$2,026 and \$8,175, respectively, which were not included on the Agency's inventory or reported to the Comptroller. During the fiscal year ended June 30, 2002, the Agency did not include one equipment purchase and one improvement to leased property as additions to its inventory or on its report to the Comptroller. These items cost \$1,488 and \$10,600, respectively. The addition of enhancements to computer equipment to the Agency's inventory report was a condition cited in our prior report.
- Effect:* All equipment purchases were not recorded in the Workers' Compensation Commission's inventory records, resulting in the June 30, 2002, and the June 30, 2003, inventory balances reported to the Comptroller being understated by \$12,088 and \$22,289, respectively.
- Cause:* The Agency believed that the improvements it made to the property it leases were not required to be included as additions to inventory and reported as such. We were told that the items purchased in the 2003 fiscal year were not included because they were not in use as of June 30, 2003.
- Recommendation:* The Commission should take steps to ensure that all new purchases are reflected in its inventory records and reported to the State Comptroller as required. (See Recommendation 2.)
- Agency's Response:* "The agency agrees with the auditors regarding inventory control. The agency will assure that immediately upon receipt, said item will be tagged with the tag numbers written on the signed receiver."

Workers' Rehabilitation Unit: Client Files:

Our review of client files for participants in Workers' Rehabilitation programs disclosed the following:

Criteria: Documentation supporting client participation in a program should be complete. An effective internal control system provides for the establishment of policies and procedures to ensure that the required supporting documentation is obtained and made part of each client's permanent file.

Conditions: The Workers' Rehabilitation Unit maintains client files on its computer system and in hard copy form. The Commission does not have a policy concerning documents required to be a part of the hard copy files. Instead, it is left up to the individual rehabilitation coordinators to decide, resulting in inconsistent information comprising each file. For several of the hard copy files we reviewed, documents maintained on the computer system were not in the hard copy file. Other documents were also missing from files. In an attempt to provide us with complete files, a rehabilitation coordinator reviewed each file first, to ensure that they contained all of the necessary documentation, printing documents from the computer system and/or contacting external sources to provide the documentation. In one instance, the required monthly progress reports for January 2003 through December 2003 were not in the client's file and were obtained subsequent to our inquiry. In another instance the monthly progress reports for November 2002 through September 2003 were not signed or dated by the institution, and the November 2002 report indicated that the client graduated even though the course's scheduled completion date was October 2, 2003. Also, certain other documents could not be retrieved from the computer system because the server they were stored on crashed and there was no other backup available. Apparently, the records were moved to another server to free up space on the system and when we asked to review the documents it was found out that they could not be retrieved.

Effect: Computer records must be reviewed together with client hard copy files to make a complete file for a client. Certain client files are missing documents that cannot be retrieved and several others had incomplete documentation.

Cause: The Workers' Compensation Commission does not have a standard policy concerning the maintenance of client files. A file server that contained certain documents crashed, and there were no other backup files. The conditions noted concerning monthly progress reports appears to have been caused by employee layoffs and early retirements that occurred in the 2003 fiscal year, as there was a period of time in which the Workers' Rehabilitation Unit had no staff.

Recommendation: The Workers' Compensation Commission should establish policies for its Workers' Rehabilitation Unit that detail the documentation required to be made a part of each client's hard copy file and to ensure that the documentation in each file is complete. (See Recommendation 3.)

Agency's Response: "It is true that there is no formal policy regarding file maintenance and we will include this in the revision of our Policy and Procedure Manual. However, each Coordinator has always had a list of what needs to be included in each hard copy case file. To insure consistency, sequence of eligibility documentation will also be required as part of the new policy.

There is, by design, a difference between what is on the computer and what is actually in the file. Generally, the difference is only in format and/or detail, e.g., the computer will reference a medical report which is actually in the client's file. Counseling sessions are recorded on the computer system and the computer print out is also placed in the hard copy file.

Regarding missing documentation, it must be noted that this unit was the most affected by the recent budget crisis. In January of 2003, eight of the 12 coordinators were laid off. On June 1, 2003, the remaining five coordinators took advantage of the early retirement incentive thereby leaving the unit with no employees. Clearly, this resulted in an inability to keep the files in adequate order. For five months, the agency was without any rehabilitation staff to process any incoming mail (including progress reports). When the coordinators returned in November of 2003, it was a huge task to get approximately 1,700 files in order while trying to meet the past and current demands of clients waiting to be served. The files have had to take a backseat to providing actual hands on services. The coordinators are auditing their files as time permits to ensure the integrity of each file.

Finally, due to limited disk space on the agency's server assigned to the Rehabilitation Services files, MIS had to remove all letters more than six months old (this included the Authorization for Services) and download them onto disks. If we needed to retrieve a letter, we would request the document number and MIS would provide the document from the disk. Unfortunately, it became evident during the audit that some disks had been misplaced in the MIS unit and we had no way to retrieve the actual document. The new server currently being installed will eliminate this concern because our disk space will not be limited.

The above-stated policies and procedures will become part of the formal process of the Rehabilitation Services Unit and will be stated as such in the department manual."

Contract Monitoring:

Our review of payments made to a consultant disclosed the following:

Criteria: A system of internal control should include procedures to ensure contract terms are met and that payments made against a contract are authorized under the terms of the contract.

Condition: The Agency utilizes three individuals from two consulting companies for programming and support of its workers' compensation computer systems. Contracts are between the companies and the State Department of Information Technology (DOIT). Upon receiving approval from DOIT to use the consultants, the Agency executes purchase orders with them. Charges are on a per hour basis, as per the contracts. The Agency executes a new purchase order for each fiscal year, and has been using the consultants continuously for the past several years. The Commission's expenditures for computer consultants totaled approximately \$421,000 and \$386,000 for the fiscal years ended June 30, 2002 and 2003, respectively.

We reviewed the payments made to one of the consultants and found several instances in which the contract terms were not adhered to. Our review also disclosed that the Commission did not have procedures in place to effectively monitor the hours billed by the consultant. We found that up to May 2003, the Commission did not require timesheets reflecting the daily activity of the consultant; there was only a monthly invoice presenting the hours billed for the month. Although the appropriate Agency personnel approved the monthly invoices, there was no other documentation supporting the billed hours. Effective in May 2003, the Commission implemented a weekly time record that indicates only the total hours billed for each day. These were not always approved by the Commission, but were attached to the approved monthly invoices. We noted that payments made by the Commission included several days in which the number of hours billed exceeded the standard eight hours per day under the contract, without the Commission's prior written approval that is required by the contract. Also, there were several days in which the consultant billed for ten hours per day, and was paid as such, even though the maximum hours allowed per day under the contract is nine. For the months of May and June 2002, the consultant billed an average of ten hours per workday and approval for those hours was received after the fact, when the business office questioned whether the number of hours billed was valid. Since there are no daily time records for that period, the actual hours billed for each day could not be determined. It should be noted that the consultant was paid a total \$149,869 against the \$150,000 purchase order that was issued for the fiscal year ended June 30, 2002, with \$32,000 of those payments made for the hours billed in May 2002 and June 2002. Our review also found a payment for one

day, June 30, 2003, for which there was no authority to pay. The \$135,000 of authorized purchase orders for the fiscal year ended June 30, 2003, was used up, and the next purchase order was not effective until July 1, 2003.

Effect: The lack of an effective monitoring system increases the risk that over-billing could occur and not be detected. The hours billed in excess of the amounts allowed in the contract, without prior written approval of the Agency, could be considered unauthorized, as could the hours billed in excess of nine per day and the payment cited that was made without a valid purchase order.

Cause: We did not determine the cause.

Recommendation: The Commission should implement control procedures to effectively monitor the hours billed by its consultants and to ensure compliance with the contract terms for the consultants. (See Recommendation 4.)

Agency's Response: "The agency agrees with this recommendation and acknowledges that although the billing records reflect the number of billable hours submitted by the consultants, the records do not show the actual daily hours worked. In response, the agency immediately put into place a time sheet requirement upon which long-term MIS consultants must log his/her arrival, lunch, and departure times approved by an appropriate party and present it with the invoice before payment will be approved by the agency.

Additionally, effective July 1, 2004, DOIT will assume complete oversight and control of our MIS department, including approval for all system changes and equipment purchases, responsibility for analyzing and approving consulting contracts, and transfer of current Workers' Compensation MIS personnel to DOIT."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Two recommendations were presented in our prior report. This report contains four recommendations, two of which are restated from our prior report. The following is a summary of the prior recommendations and the action taken by the Commission.

- The Commission should establish procedures to ensure that any timesheets that are not prepared by an employee due to absence at the time of original submission are either resubmitted under the employee's signature or the original timesheet should be initialed by the employee at the time the employee returns to work. Also the Commission should require that the employee initial any changes made to an employee's timesheet. This recommendation is being restated as Recommendation 1.
- The Commission should take steps to improve controls and reporting over its equipment inventory, and the equipment inventory should be kept in a manner consistent with the requirements of the State of Connecticut's Property Control Manual. The Agency has taken steps to resolve this recommendation; however, we found that certain new equipment purchases were not included on its inventory list or reported to the State Comptroller. We are restating this recommendation as Recommendation 2.

Current Audit Recommendations:

- 1. The Commission should establish procedures to ensure that all timesheets submitted for processing are properly completed by the employee and approved by supervisors. The procedures should include a requirement that the employee agree or disagree with any changes made to the applicable timesheet.**

Comment:

We noted during our review that an employee's timesheet was not prepared by the employee and was not signed by the employee upon his/her return to work. We noted three occasions in which supervisors approved the time sheets prior to the conclusion of the pay period, and several instances in which changes were made to timesheets without documentation that the employee agreed with such changes.

- 2. The Commission should take steps to ensure that all new purchases are reflected in its inventory records and reported to the State Comptroller as required.**

Comment:

Our review noted that the Agency did not include all new equipment purchases on its inventory listing or in its June 30, 2002, and its June 30, 2003, reports to the Comptroller.

- 3. The Workers' Compensation Commission should establish policies for its Workers' Rehabilitation Unit that detail the documentation required to be made a part of each client's hard copy file and to ensure that the documentation in each file is complete.**

Comment:

Our review found that the Workers' Rehabilitation Unit maintains client files on its computer system and in hard copy form, but does not have a policy concerning documents required to be a part of the hard copy files. Instead, it is left up to the individual rehabilitation coordinators to decide, resulting in inconsistent information comprising each of the hard copy files. For the client files we reviewed, certain documents maintained on the computer system were not in the hard copy files and could not be retrieved because the server they were stored on crashed. Two instances were noted in which monthly progress reports appeared to have been submitted all at once, after the applicable courses ended.

- 4. The Commission should implement control procedures to effectively monitor the hours billed by its consultants and to ensure compliance with the contract terms for the consultants.**

Comment:

We found that records supporting the hours billed by a consultant were inadequate, instances in which the Commission made payments to a consultant for hours billed in excess of the standard per day hours allowed under the contract without the Commission's required prior written approval, and payments that were made for hours above the maximum per day allowed under the contract regardless of approval. We also noted a payment made that included hours billed for which there was not a valid purchase order.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Workers' Compensation Commission for the fiscal years ended June 30, 2002 and 2003. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Workers' Compensation Commission for the fiscal years ended June 30, 2002 and 2003 are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Workers' Compensation Commission complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Workers' Compensation Commission is the responsibility of the Workers' Compensation Commission's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2002 and 2003, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Workers' Compensation Commission is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the

Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Workers' Compensation Commission's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe our findings of incomplete documentation supporting client participation in the Workers' Rehabilitation Program and the lack of an effective contract monitoring procedure for the Agency's consultants represent reportable conditions.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that neither of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance that are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Workers' Compensation Commission during the course of this examination.

Michael DiDomizio
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts